

**LINCOLN DOWNTOWN
DEVELOPMENT AUTHORITY
LINCOLN, MICHIGAN**

Audited Financial Statements and
Other Supplementary Financial Information
Year Ended April 30, 2007

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name VILLAGE OF LINCOLN DDA	County ALCONA
Fiscal Year End 4-31-07	Opinion Date 2-22-08	Date Audit Report Submitted to State 2-27-08	

We affirm that:


We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- YES NO Check each applicable box below. (See instructions for further detail.)
- ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
 - ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
 - ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
 - ☒ ☐ The local unit has adopted a budget for all required funds.
 - ☒ ☐ A public hearing on the budget was held in accordance with State statute.
 - ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
 - ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
 - ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
 - ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
 - ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
 - ☒ ☐ The local unit is free of repeated comments from previous years.
 - ☒ ☐ The audit opinion is UNQUALIFIED.
 - ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
 - ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
 - ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) STRALEY, ILSLEY & LAMP P.C.		Telephone Number 989-356-4531		
Street Address 2106 U.S. 23 SOUTH		City ALPENA	State MI	Zip 49707
Authorizing CPA Signature 		Printed Name TERRENCE D. YULE, CPA		License Number 1101020949

CONTENTS

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
BASIC FINANCIAL STATEMENTS	
Government-wide Financial Statements	
Statement of Net Assets	10
Statement of Activities	12
Fund Financial Statements	
Governmental Fund Financial Statements	
Balance Sheet	14
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets	15
Statement of Revenues, Expenditures, and Changes in Fund Balances	16
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	17
Notes to financial statements	18
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedules:	
General Fund	24



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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Lincoln Downtown Development Authority
Lincoln, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of **Lincoln Downtown Development Authority**, as of and for the year ended April 30, 2007, which collectively comprise the **Authority's** basic financial statements as listed in the table of contents. These financial statements are the responsibility of **Lincoln Downtown Development Authority**, management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of **Lincoln Downtown Development Authority**, as of April 30, 2007, and the respective changes in financial position and cash flows, were applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Required Supplemental Information

The Management's Discussion and Analysis and the required supplemental information identified in the Table of Contents are not a required part of the basic financial statements but are supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

Individual Fund Financial Statements and Other Supplemental Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise **Lincoln Downtown Development Authority's** basic financial statements. The accompanying information identified in the table of contents as individual financial statements and other supplemental information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as whole.

STRALEY ILSLEY + LAMP, PC.

February 22, 2008

Lincoln Downtown Development Authority Management's Discussion and Analysis

The following is management's discussion and analysis of the financial position and results of operations for the fiscal year ended April 30, 2007. Please read it in conjunction with the financial statements and related footnotes, which follow this section.

This is the first year of implementation of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. Certain comparative information between the current year and the prior year is required to be presented in the Management's Discussion and Analysis (MD&A). However, because this is the first year of implementing the new reporting model, certain necessary comparative information of the previous year was not prepared. GASB Statement No. 34 permits the omission of comparative information in the first year of adoption of the new reporting model and, due to the financial resources necessary to prepare the comparative information for the prior year; the Authority has elected to exclude the information in this report. Subsequent reports will include the comparative information.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Lincoln Downtown Development Authority financially as a whole. The *Government-Wide Financial Statements* provide information about the activities of the whole Authority, presenting both an aggregate view of the Authority's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. The fund financial statements look at the Authority's governmental funds. The annual report is arranged as follows:

Management's Discussion and Analysis (MD&A)
(Required Supplemental Information)

Basic Financial Statements

Government-Wide Financial Statements

Fund Financial Statements

Notes to the Basic Financial Statements

(Required Supplemental Information)

Budgetary information for the General Fund

Lincoln Downtown Development Authority Management's Discussion and Analysis

Financial Highlights

- The assets of the Lincoln Downtown Development Authority exceeded its liabilities at the close of the most recent fiscal year by \$306,611(*net assets*). Of this amount, \$167,278 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The Lincoln Downtown Development Authority's total net assets decreased by \$195,932.
- The Lincoln Downtown Development Authority provided services of \$300,876 in governmental activities during the year ended April 30, 2007.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$167,278 or 56 percent of total general fund expenditures and operating transfers to other funds in comparison to \$158,605 at the close of the prior year, a increase of \$8,673.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Lincoln Downtown Development Authority's basic financial statements. The Lincoln Downtown Development Authority's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the Lincoln Downtown Development Authority's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Lincoln Downtown Development Authority's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Lincoln Downtown Development Authority is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes).

Both of the government-wide financial statements distinguish functions of the Lincoln Downtown Development Authority that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the Lincoln Downtown Development Authority include legislative, general government, culture and recreation. The business-type activities of the Lincoln Downtown Development Authority include providing water and sewer services.

Lincoln Downtown Development Authority Management's Discussion and Analysis

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Lincoln Downtown Development Authority, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Lincoln Downtown Development Authority can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Lincoln Downtown Development Authority maintains one governmental fund. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund which is considered to be a major fund.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the general funds' budget comparisons.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Lincoln Downtown Development Authority, assets exceeded liabilities by \$306,611 at the close of the most recent fiscal year.

A the large portion of the Lincoln Downtown Development Authority's net assets \$139,333 (45 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment); less any related debt used to acquire those assets that are still outstanding. The Lincoln Downtown Development Authority uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the Lincoln Downtown Development Authority's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**Lincoln Downtown Development Authority
Management's Discussion and Analysis**

	Governmental Activities 2007	Total 2007
Current and other assets	\$ 167,278	\$ 167,278
Capital assets	139,333	139,333
Total Assets	<u>306,611</u>	<u>306,611</u>
Current liabilities	-	-
Noncurrent liabilities	-	-
Total liabilities	<u>-</u>	<u>-</u>
Net assets:		
Invested in capital assets, Net of related debt	139,333	139,333
Restricted	-	-
Unrestricted	<u>167,278</u>	<u>167,278</u>
Total net assets	<u>\$ 306,611</u>	<u>\$ 306,611</u>

The balance of unrestricted net assets \$167,278 may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the Lincoln Downtown Development Authority is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

The government's net assets decreased by \$195,932 during the current year. Governmental activities, experienced a increase of \$8,673 net assets during the current fiscal year. While property tax revenue was down slightly, the increase in expenditures is what attributed to the decrease in revenue over expenses.

	Governmental Activities 2007	Total 2007
Revenues:		
Program revenues:		
Charges for services	\$ 3,115	\$ 3,115
General revenues:		
Property taxes	99,613	99,613
Other	2,216	2,216
Transfers	-	-
Total revenues	<u>104,944</u>	<u>104,944</u>

**Lincoln Downtown Development Authority
Management's Discussion and Analysis**

	Governmental Activities 2007	Total 2007
Expenses:		
General government	\$ 300,876	\$ 300,876
Total expenses	<u>300,876</u>	<u>300,876</u>
Change in net assets	(195,932)	(195,932)
Net assets – beginning	<u>502,543</u>	<u>502,543</u>
Net assets – end	<u>\$ 306,611</u>	<u>\$ 306,611</u>

Cost of Services – Governmental Activities

	Total Cost of Services 2007	Program Revenues 2007	Net Cost of Services 2007
Functions/Programs			
General government	<u>300,876</u>	<u>3,115</u>	<u>(297,761)</u>
Total expenses	<u>\$ 300,876</u>	<u>\$ 3,115</u>	<u>\$ (297,761)</u>

REVENUES

Though property taxes continue to be our largest source of revenue, we had only a minimal increase again this fiscal year. The total taxable value on all real and personal property amounted to \$9,733,159 for the fiscal year 2006-2007.

Lincoln Downtown Development Authority Management's Discussion and Analysis

Financial Analysis of the Government's Funds

As noted earlier, the Lincoln Downtown Development Authority uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the Lincoln Downtown Development Authority's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the Lincoln Downtown Development Authority's financing requirements. In particular *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Lincoln Downtown Development Authority's governmental funds (general fund) reported ending fund balances of \$158,605, a decrease of \$2,767 in comparison with the prior year. All of this total amount constitutes *unreserved fund balance*, which is available for spending at the government's discretion.

General Fund Budgetary Highlights

There were no differences between the original budget and the final amended budget.

Capital Asset and Debt Administration

Capital assets. The Lincoln Downtown Development Authority's investment in capital assets for its governmental and business type activities as of April 30, 2007, amounts to \$139,333 (net of accumulated depreciation). This investment in capital assets includes land, land improvements, building and improvements, machinery and equipment.

	Governmental Activities 2007	Total 2007
Historical cost:		
Land	\$ 122,801	\$ 122,801
Buildings and improvements	-	-
Equipment	46,021	46,021
	<u>168,822</u>	<u>168,822</u>
Accumulated depreciation:		
	<u>29,489</u>	<u>29,489</u>
Net capital assets	<u>\$ 139,333</u>	<u>\$ 139,333</u>

**Lincoln Downtown Development Authority
Management's Discussion and Analysis**

Economic Factors and Next Year's Budgets and Rates

- The fiscal year end 2007 county wide unemployment rate is 10.8 percent compared to 7.1 percent for the state.
- There has been a increase in Property Tax Revenue.
- The Authority has new developmental projects that will have a positive impact on their economy.
 1. The Lincoln Downtown Development Authority Board of Trustees has set of goal of attracting two new businesses in vacant buildings. In addition they would like to add a motel and full service gas station to the District.
 2. The Lincoln Downtown Development Authority is also involved in various beautification projects which include demolition of a building, improving the exterior appearances of vacant buildings, and developing a new street scape.

During the current fiscal year, unreserved fund balance in the general fund is estimated to be \$125,000 Per the Boards, the Authority must maintain a minimum fund balance of 10% of expenses, but strive to increase it to 15%. The final projected fund balance was \$125,502 for 2007 but the actual fund balance was \$167,278 a difference of \$41,776.

Requests for Information

This financial report is designed to provide a general overview of the Lincoln Downtown Development Authority's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this Report or requests for additional information should be addressed to the Office of the Lincoln Downtown Development Authority Treasurer, 652 N. Barlow Road, Lincoln, MI 48742.

Lincoln Downtown Development Authority

STATEMENT OF NET ASSETS

April 30, 2007

	<u>Primary Government Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 73,230
Receivables (net of allowance for uncollectible accounts)	94,048
Internal balances	-
Due from other governmental units	-
Advance to other governmental units	-
Capital assets	168,822
Accumulated depreciation	<u>(29,489)</u>
Total assets	<u>306,611</u>
LIABILITIES	<u>-</u>
NET ASSETS	
Invested in capital assets, net of related debt	139,333
Unrestricted	<u>167,278</u>
Total net assets	<u><u>\$ 306,611</u></u>

The accompanying notes to financial statements are an integral part of this statement.

Lincoln Downtown Development Authority

STATEMENT OF ACTIVITIES

For the Year Ended April 30, 2007

	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
<u>Functions/Programs:</u>				
Primary Government:				
Governmental activities:				
General government	<u>300,876</u>	<u>3,115</u>	<u></u>	<u></u>
Total governmental activities	<u>300,876</u>	<u>3,115</u>	<u>-</u>	<u>-</u>
 Total primary government	 <u><u>\$ 300,876</u></u>	 <u><u>\$ 3,115</u></u>	 <u><u>\$ -</u></u>	 <u><u>\$ -</u></u>
 General revenues:				
Property taxes, levied for general purposes				
Investment earnings				
Total general revenues and transfers				
 Change in net assets				
Net assets - beginning of the year				
Net assets - end of the year				

Net (Expense) Revenue and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-type Activities	Total
(297,761)	-	(297,761)
(297,761)	-	(297,761)
<u>\$ (297,761)</u>	<u>\$ -</u>	<u>\$ (297,761)</u>
99,613	-	99,613
2,216	-	2,216
<u>101,829</u>	<u>-</u>	<u>101,829</u>
(195,932)	-	(195,932)
502,543	-	502,543
<u>\$ 306,611</u>	<u>\$ -</u>	<u>\$ 306,611</u>

The accompanying notes to financial statements are an integral part of this statement.

Lincoln Downtown Development Authority

BALANCE SHEET - GOVERNMENTAL FUNDS

April 30, 2007

	<u>Governmental Fund Type</u>
	<u>General Fund</u>
ASSETS	
Cash and cash equivalents	\$ 73,230
Receivables (net of allowance for uncollectible accounts)	<u>94,048</u>
Total assets	<u><u>\$ 167,278</u></u>
LIABILITIES AND FUND BALANCES	
Liabilities:	<u>\$ -</u>
Fund Balances:	
Unreserved	
Undesignated	<u>167,278</u>
Total fund balances	<u>167,278</u>
Total liabilities and fund balances	<u><u>\$ 167,278</u></u>

The accompanying notes to financial statements are an integral part of this statement.

Lincoln Downtown Development Authority

**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS - GOVERNMENTAL FUNDS**

As of April 30, 2007

Fund balances - Total governmental funds		\$	167,278
Amounts reported for governmental activities in the Statement of Net Assets are different because:			
Capital assets used in governmental activities are not financial resources and therefore not reported in the governmental funds.			
Governmental capital assets	\$	168,822	
Less accumulated depreciation		<u>(29,489)</u>	
			<u>139,333</u>
Net Assets of Governmental Activities		\$	<u><u>306,611</u></u>

The accompanying notes to financial statements are an integral part of this statement.

Lincoln Downtown Development Authority

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS**

For the Year Ended April 30, 2007

	<u>Governmental Fund Type</u>
	<u>General Fund</u>
REVENUES	
Taxes	\$ 99,613
Interest and rents	2,216
Other	3,115
Total revenues	<u>104,944</u>
EXPENDITURES	
General government	96,271
Capital outlay	-
Total expenditures	<u>96,271</u>
EXCESS REVENUES OVER (UNDER) EXPENDITURES	8,673
FUND BALANCES , beginning of the year	<u>158,605</u>
FUND BALANCES , end of the Year	<u>\$ 167,278</u>

The accompanying notes to financial statements are an integral part of this statement.

Lincoln Downtown Development Authority

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES - GOVERNMENTAL FUNDS**

For the Year Ended April 30, 2007

Net change in fund balances - Total governmental funds		\$	8,673
Amounts reported for governmental activities in the Statement of Activities are different because:			
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives.			
Expenditures for capital assets	\$	-	
Less current year depreciation		<u>(6,574)</u>	(6,574)
Less donated capital assets			<u>(198,031)</u>
Change in Net Assets of Governmental Activities		\$	<u><u>(195,932)</u></u>

Lincoln Downtown Development Authority

NOTES TO FINANCIAL STATEMENTS

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.

The accounting policies of Lincoln Downtown Development Authority conform to generally accepted accounting principles (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Authority:

A. Reporting Entity.

Description of Authority Operations. Lincoln Downtown Development Authority is a political entity situated within the County of Alcona which is located in the northeastern region of the lower peninsula of Michigan. The governing body of the Authority is the Authority Board, composed of the President, the secretary, the treasurer, and four trustees. The Authority President acts as the chief administrative and executive officer.

The Authority provides services to its citizens in general government. Revenues for these services are provided chiefly by taxes.

B. Government-Wide and Fund Financial Statements.

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Basis of Presentation.

The accounts of the government are organized and operated on the basis of funds and account groups. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. Account groups are a reporting device to account for certain assets and liabilities of the governmental funds not recorded directly in those funds. The financial activities of the Authority are recorded in separate funds and account groups, described as follows:

Governmental Fund Types. General Fund. This fund includes the general operations of the Authority and transactions not included in other funds. The revenues of this fund are derived primarily from property taxes and state shared revenues.

Lincoln Downtown Development Authority

NOTES TO FINANCIAL STATEMENTS

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES. (continued)

D. Measurement Focus/Basis of Accounting.

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures (expenses) are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied. The accounting policies of Lincoln Downtown Development Authority conform to generally accepted accounting principles as applicable to governmental units.

Governmental Funds. The Governmental Fund Types (General) use a financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e. both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Current expenditures are generally recorded when the fund liability is incurred, if measurable. Exceptions to this general rule include principal and interest on long-term debt, which is recognized when due, and accrued vacation and sick leave, which is recorded when payable from current available financial resources.

Cash and Cash Equivalents. For purposes of these financial statements, cash equivalents include time deposits, certificates of deposit, and all other highly liquid deposits with maturities of three months or less.

Inventories. Inventories are not considered significant and are recorded as expenditures when purchased.

Capital Assets. Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$2,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Buildings - 40 years
Office Equipment - 5 to 7 years
Computer Equipment - 3 to 7 years

Interfund balances. On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental and business-type activities columns of the statement of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

Employee Vacation and Sick Leave. Authority employees are not allowed to accumulate vacation and sick pay and therefore, no liability has been shown in the financial statements in accordance with Governmental Accounting Standards Board's Statement No. 16 "Accounting for Compensated Absences."

Accrued Liabilities and Long-term Obligations. All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. In general, payments made within sixty days after year end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Lincoln Downtown Development Authority

NOTES TO FINANCIAL STATEMENTS

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES. (continued)

Net Assets. Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Property Taxes. Properties are assessed as of December 31, and the related property taxes become a lien on December 1 of the following year. The taxes are due on February 14 with the final collection date of February 28 before they are added to the delinquent County of Alcona tax rolls. Assessed values are established annually and are equalized by the State at an estimated 50% of current market value. Property in Lincoln Downtown Development Authority for the 2006 levy was assessed at a taxable value of \$9,733,159.

By agreement with the County of Alcona, delinquent real property taxes are purchased by the County of Alcona. The proceeds from the County's purchase of the delinquent taxes are used to liquidate the Authority's delinquent real property taxes receivables.

Encumbrances. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation is not employed by the Authority. Commitments outstanding at year end are charged against the subsequent year's appropriation once received and approved.

Use of Estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Accounting Change. Effective May 1, 2004, the Authority implemented the provisions of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments (GASB No. 34). Changes to the Authority's financial statements as a result of GASB No. 34 are as follows:

- A Management's Discussion and Analysis (MD&A) section providing analysis of the Authority's overall financial position and results of operations has been included.
- Government-wide financial statements (statement of net assets and statement of activities) prepared using full accrual accounting for all of the Authority's activities have been provided.
- The fund financial statements focus on major funds rather than fund types.
- The governmental funds now accrue a liability for compensated absences to the extent that they come due for payment prior to year end.

Reclassification. Certain items reported in the April 30, 2006, financial statements may have been reclassified to conform with the presentation for the current year.

Lincoln Downtown Development Authority

NOTES TO FINANCIAL STATEMENTS

NOTE 2--LEGAL COMPLIANCE.

Budgets and Budgetary Accounting. Prior to adoption of the operating budget, Authority departments prepare and submit their proposed operating budgets commencing the following May 1. A public hearing is conducted to obtain taxpayer comments. Prior to April 30, the budget is adopted by the Authority Board. Budgeted amounts are as originally adopted, or as amended by the Authority Board during the year. Unused appropriations at April 30, are not carried forward to the following year. The budget for the year ended April 30, 2007 was adopted on a functional basis.

P.A. 621 of 1978, section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the Local Unit's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the Lincoln Downtown Development Authority for these budgetary funds were adopted on a function level. Detail at the activity and departmental level is presented in the General Fund Combining Statement for the benefit of management.

Accumulated Fund Deficits. Lincoln Downtown Development Authority had no funds with an accumulated fund balance/retained earnings deficit at April 30, 2007.

NOTE 3--DEPOSITS WITH FINANCIAL INSTITUTIONS.

The Authority maintains separate cash accounts for each of its funds. Cash is not pooled.

For the year ended April 30, 2007 the carrying amount of the Authority's deposits with financial institutions was \$73,230 and the bank balance was \$75,424. Of the bank balance, \$75,424 was covered by federal depository insurance (FDIC).

Statutes authorize the Authority to invest as follows:

- (a) In bonds, securities, and other obligations of the United States, or an agency or instrumentality of the United States in which the principal and interest is fully guaranteed by the United States.
- (b) In certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank or a savings and loan association which is a member of the federal deposit insurance corporation or a credit union which is insured by the national credit union administration, but only if the banksavings and loan association or credit union is an eligible Michigan depository.
- (c) In commercial paper rated at the time of purchase within the 3 highest classifications established by not less than 2 standard rating services and which matures not more than 270 days after the date of purchase. No more than 50% of any fund may be invested in commercial paper at any time.
- (d) In United States government or federal agency obligation repurchase agreements.
- (e) In bankers' acceptances of United States banks.
- (f) In mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

Lincoln Downtown Development Authority

NOTES TO FINANCIAL STATEMENTS

NOTE 4--CAPITAL ASSETS.

Capital asset activity of the primary government for the current year was as follows:

	Primary Government		
	Balances May 1, 2006	Additions	Balances April 30, 2007
Governmental activities:			
Historical cost:			
Land	\$189,228	\$ -	\$ (66,427)
Buildings and improvements	87,203	-	(87,203)
Equipment	171,065	-	(125,044)
	<u>447,496</u>	<u>-</u>	<u>(278,674)</u>
			<u>168,822</u>
Allowance for depreciation:			
Buildings and improvements	9,294	-	(9,294)
			(71,319)
Equipment	94,234	6,574	
	<u>103,528</u>	<u>6,574</u>	<u>(80,613)</u>
			<u>29,489</u>
			<u>29,489</u>
Net Capital Assets	<u>\$ 343,968</u>	<u>\$ 6,574</u>	<u>\$ (198,061)</u>
			<u>\$139,333</u>

NOTE 5--RISK MANAGEMENT.

The Authority is exposed to various risks of loss related to property loss, torts, errors, and omissions, employee injuries, unemployment benefits, as well as medical and workman's compensation benefits provided to employees. The Authority has purchased commercial insurance for fleet equipment and tort claims, boiler and machinery, certain property and equipment damage and theft, employee theft, and limited tort claims for specific Authority facilities or events.

Settled claims for the commercial insurance have not exceeded the amount of coverage in any of the past three years. There was no reduction in coverages obtained through commercial insurance during the past year.

REQUIRED SUPPLEMENTARY INFORMATION

Lincoln Downtown Development Authority

**REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND**

Year ended April 30, 2007

	Budget Amounts			Variance with
	Original	Final	Actual	Final Budget
REVENUES				
Taxes	\$ 115,411	\$ 115,411	\$ 99,613	\$ (15,798)
Interest and rents	1,000	1,000	2,216	1,216
Other	-	-	3,115	3,115
Total revenues	<u>116,411</u>	<u>116,411</u>	<u>104,944</u>	<u>(11,467)</u>
EXPENDITURES				
General government	149,514	132,300	96,271	36,029
Capital outlay	-	-	-	-
Total expenditures	<u>149,514</u>	<u>132,300</u>	<u>96,271</u>	<u>36,029</u>
EXCESS REVENUES OVER (UNDER)				
EXPENDITURES	<u>(33,103)</u>	<u>(15,889)</u>	<u>8,673</u>	<u>24,562</u>
FUND BALANCES, April 1	<u>158,605</u>	<u>158,605</u>	<u>158,605</u>	<u>-</u>
FUND BALANCE, March 31	<u>\$ 125,502</u>	<u>\$ 142,716</u>	<u>\$ 167,278</u>	<u>\$ 24,562</u>



Certified Public Accountants

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February 22, 2008

To the Authority Board
Lincoln Downtown Development Authority
Alpena, Michigan

We have audited the financial statements of Lincoln Downtown Development Authority for the year ended April 30, 2007, and have issued our report thereon dated February 22, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Generally Accepted Auditing Standards

As stated in our engagement letter dated February 1, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the general purpose financial statements are free of material misstatement and are fairly presented in accordance with generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute, assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts may exist and not be detected by us.

As part of our audit, we considered the internal control of Lincoln Downtown Development Authority. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Lincoln Downtown Development Authority are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ending April 30, 2007. We noted no transactions entered into by the governmental unit during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the general purpose financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the general purpose financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the governmental unit's financial reporting process (that is, cause future financial statement to be materially misstated). In our judgment, some of the adjustments we proposed, which were recorded by the governmental unit, either individually or in the aggregate, indicate matters that could have a significant effect on the governmental unit's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's general purpose financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Lincoln Downtown Development Authority's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Reportable Conditions

Reportable conditions involve matters coming to our attention, under standards established by the American Institute of Certified Public Accountants, relating to significant deficiencies in the design or operations of the internal control structure that, in our judgment, could adversely affect the ability to record, process, summarize, and report financial data consistent with the assertions of management in the general purpose of financial statements. Following are certain reportable conditions, as well as other matters, we noted during our audit. Our consideration of the internal control structure would not necessarily disclose all matters that might be reportable conditions.

We wish to thank the staff of Lincoln Downtown Development Authority for their assistance during the audit.

This report is intended solely for the information and use of Lincoln Downtown Development Authority Board, Michigan Department of Treasury, Management, and others within the governmental unit and is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit the distribution of this report, which upon acceptance by Lincoln Downtown Development Authority, is a matter of public record.

We appreciate the opportunity to serve Lincoln Downtown Development Authority. If you have any questions, or if we can be of further service, please do not hesitate to contact us.

STRALEY ILSLEY & LAMP P.C.